

# FDIC State Profile

Summer 2005

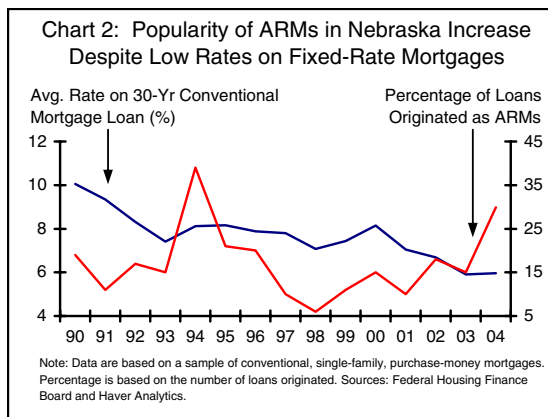
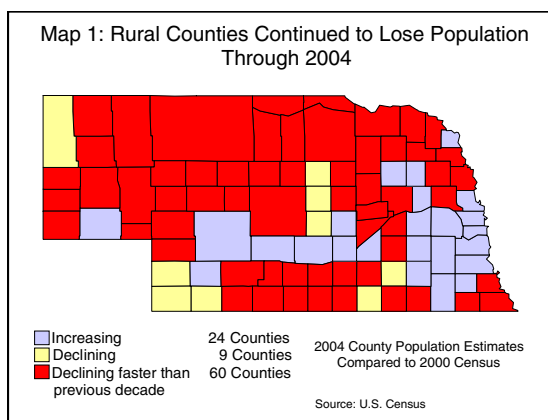
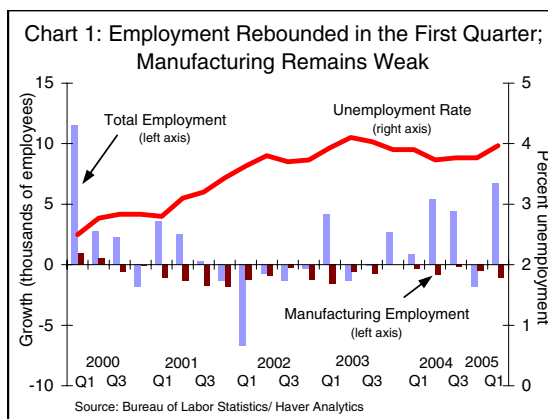
## Nebraska

Nebraska's employment rebounded sharply in the first quarter of 2005, but manufacturing continued to struggle.

- Nebraska's economy gained 7,000 jobs in the first quarter, the largest quarterly increase in five years. Every sector except manufacturing showed both quarterly and year-over-year growth. Growth in the leisure and hospitality sector was the strongest in both time frames (See Chart 1).
- However, the manufacturing sector lost 1,100 jobs in first the quarter and has not added jobs in any quarter in nearly five years. Still, manufacturing job losses in Nebraska have been lower than the nation's on a proportional basis.
- Nebraska's unemployment rate increased to 4.0 percent in the first quarter, compared with 3.9 percent a year ago. Despite job growth throughout 2004, the unemployment rate has continued to increase as workers have re-entered the workforce faster than jobs have become available.

Nebraska's rural counties have continued to lose population since the 2000 Census.

- According to the 2004 Estimates of County Population released by the Census Bureau in April 2005, Nebraska's population increased by 0.6 percent, or 10,000 people, compared with the previous year. The metropolitan areas of **Omaha** and **Lincoln** showed most of the increase, accounting for more than 85 percent of the added population.
- However, Nebraska's rural counties continued their trend of depopulation as 69 of the state's 93 counties lost population from 2000 to 2004. Because of the rural area contraction, Nebraska's population grew 2.1 percent (half the national rate) during that period. The state's population growth ranked 37<sup>th</sup> among the states.
- While recent rural depopulation losses are a continuation of a decades-long trend, depopulation is accelerating over much of the state. Sixty counties lost population at a faster rate from 2000 to 2004 than from 1990 to 2000 (See Map 1).



## State Profile

The popularity of adjustable-rate mortgages (ARMs) has increased despite low rates on fixed-rate mortgages.

- Despite historically low mortgage rates and spreads between fixed-rate and ARMs in 2003 and 2004, home purchasers in Nebraska have increasingly chosen ARMs (See Chart 2).
- Should interest rates increase, some ARM holders may be vulnerable to rising debt service requirements.
- Most of Nebraska's insured institutions, however, typically have not held many residential ARMs in their loan portfolios.

Although home prices appreciated significantly in many areas of the nation, Nebraska changes were more moderate.

- Home price appreciation in Nebraska averaged 5.4 percent during the year ended at the first quarter of 2005, less than half of the national rate of 12.5 percent (See Map 2). Nebraska ranked 42<sup>nd</sup> of the 50 states in percentage increase.
- Home prices in the state's largest market, **Omaha**, grew 5.0 percent, while those in **Lincoln** grew 5.7 percent. However, the **Sioux City** market, which includes two counties in Nebraska, experienced an increase of just 1.7 percent, a rate that was less than the rate of inflation.
- While home prices grew more than per capita income in 2004, the difference of 0.3 percent was significantly less than the national gap of 5.5 percent.

Agricultural credit quality continues to improve at Nebraska's farm banks.

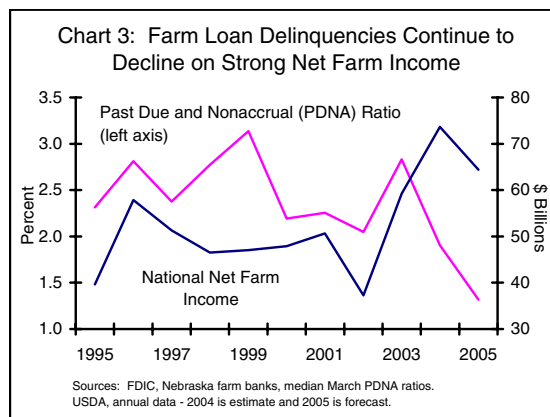
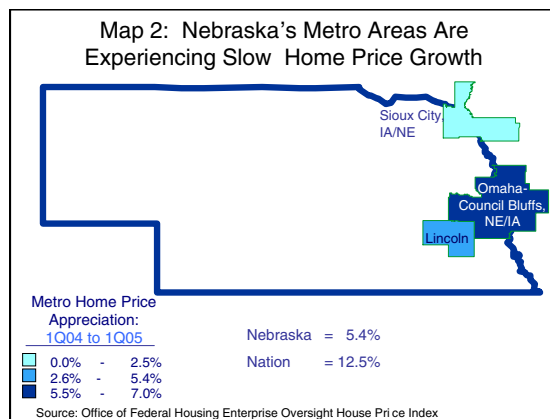
- On a year-over-year basis, agricultural loan delinquencies declined to their lowest level in recent history as Nebraska farmers benefited from strong corn and soybean production and prices, strong cattle prices, and high government support payments (See Chart 3).
- Agricultural loan charge-offs have also been subdued over the past decade, with most farm banks reporting minimal net charge-offs during that period.
- USDA forecasts, which indicate strong net farm income in 2005, suggest that agricultural loan problems should remain low at Iowa's farm banks this year.

Profitability declined from one year ago largely because of lower noninterest income.

- At small community institutions, those with assets less than \$250 million, annualized pretax return on assets (ROA), which remains historically strong, decreased slightly from one year ago (See Table 1). First quarter

noninterest income declined for the second consecutive year and is at its lowest level in five years.

- Although funding costs rose more than loan yields, net interest margins improved slightly because of strong growth in loan portfolios. Loans to assets increased to 66.4 percent from 64.0 percent one year ago.
- Securities gains were more than halved in the first quarter of 2005 as rising interest rates lowered valuations on securities portfolios.



**Table 1: Profitability Declined From One Year Ago**

Income statement contribution (as a percentage of average assets)			
	First Quarter (annualized)		Percentage Point Change
	2005	2004	
Net Interest Income	3.70	3.66	0.04
Noninterest Income	0.58	0.63	(0.05)
Noninterest Expense	2.71	2.68	0.03
Provision Expense	0.11	0.14	(0.03)
Security Gains & Losses	0.02	0.05	(0.02)
<b>Net Income (ROA) Before Taxes</b>	<b>1.49</b>	<b>1.52</b>	<b>(0.03)</b>

Source: FDIC. Nebraska small community institutions (total assets less than \$250 million), excluding denovo and specialty institutions.

## Nebraska at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	0.2%	0.2%	-0.6%	0.8%
Manufacturing (11%)	-2.2%	-1.6%	-3.7%	-5.4%	-1.0%
Other (non-manufacturing) Goods-Producing (5%)	0.6%	2.9%	2.3%	3.9%	-3.3%
Private Service-Producing (67%)	2.9%	0.5%	0.5%	-0.8%	1.5%
Government (17%)	0.5%	-0.3%	1.1%	2.5%	0.3%
Unemployment Rate (% of labor force)	4.0	3.9	3.9	3.6	2.8
<b>Other Indicators</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Personal Income	N/A	4.3%	4.6%	0.2%	4.9%
Single-Family Home Permits	13.1%	-3.5%	29.5%	8.5%	-10.7%
Multifamily Building Permits	129.8%	11.2%	-64.9%	336.7%	-84.9%
Existing Home Sales	11.2%	-4.4%	10.8%	1.1%	2.2%
Home Price Index	5.3%	3.9%	2.8%	3.8%	4.4%
Bankruptcy Filings per 1000 people (quarterly level)	1.39	1.30	1.30	1.05	1.05

**BANKING TRENDS**

<b>General Information</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Institutions (#)	262	269	278	289	292
Total Assets (in millions)	45,363	45,996	48,986	45,899	45,032
New Institutions (# < 3 years)	1	2	4	6	7
Subchapter S Institutions	82	79	75	71	68
<b>Asset Quality</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.11	2.58	3.27	2.94	2.95
ALLL/Total Loans (median %)	1.55	1.61	1.61	1.57	1.52
ALLL/Noncurrent Loans (median multiple)	2.13	1.66	1.48	1.55	1.73
Net Loan Losses / Total Loans (median %)	0.06	0.08	0.07	0.08	0.08
<b>Capital / Earnings</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Tier 1 Leverage (median %)	9.87	9.66	9.67	9.45	9.59
Return on Assets (median %)	1.15	1.15	1.13	1.12	1.10
Pretax Return on Assets (median %)	1.47	1.49	1.46	1.48	1.46
Net Interest Margin (median %)	4.30	4.27	4.26	4.26	4.26
Yield on Earning Assets (median %)	7.20	7.19	7.36	7.53	7.86
Cost of Funding Earning Assets (median %)	2.95	2.93	3.11	3.30	3.63
Provisions to Avg. Assets (median %)	0.10	0.11	0.12	0.11	0.11
Noninterest Income to Avg. Assets (median %)	0.55	0.55	0.56	0.54	0.53
Overhead to Avg. Assets (median %)	2.88	2.85	2.86	2.84	2.81
<b>Liquidity / Sensitivity</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Loans to Assets (median %)	65.4	63.5	64.1	63.9	65.5
Noncore Funding to Assets (median %)	17.9	16.4	16.5	15.3	15.4
Long-term Assets to Assets (median %, call filers)	11.0	11.3	11.0	10.3	9.4
Brokered Deposits (number of institutions)	79	82	82	75	77
Brokered Deposits to Assets (median % for those above)	3.1	2.1	2.3	2.4	2.3
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Commercial and Industrial	74.4	75.1	74.7	74.2	76.3
Commercial Real Estate	58.7	48.1	46.9	45.1	40.7
Construction & Development	2.8	2.5	3.1	2.6	2.5
Multifamily Residential Real Estate	0.0	0.0	0.0	0.0	0.0
Nonresidential Real Estate	41.3	40.0	37.2	34.2	29.8
Residential Real Estate	65.2	67.0	71.1	73.2	73.1
Consumer	38.5	42.3	45.8	51.7	52.7
Agriculture	263.2	249.6	262.2	274.4	275.5

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Omaha-Council Bluffs, NE-IA	75	13,804	< \$250 million	240 (91.6%)
Lincoln, NE	25	4,435	\$250 million to \$1 billion	16 (6.1%)
Sioux City, IA-NE-SD	33	2,042	\$1 billion to \$10 billion	5 (1.9%)
			> \$10 billion	1 (0.4%)